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C O N F I D E N T I A L SECTION 02 OF 02 ASTANA 00

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TAGS: [ENRG](#) [EPET](#) [KZ](#) [PGOV](#) [PREL](#)  
SUBJECT: KAZAKHSTAN: EXXONMOBIL UPDATES AMBASSADOR ON CPC  
PIPELINE, KCTS PROJECT

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\* Missing Section 001 \*  
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CPC Negotiations: New Governance Proposal on Table  
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15. (C) Willis informed the Ambassador that a recent, new proposal on CPC corporate governance held some promise for unblocking the long-stalled expansion negotiations (Ref B). The proposal would arrange voting rights to ensure that the GOR did not have the ability to change the structure of the venture over the objections of the non-governmental shareholders. However, he said, before moving forward ExxonMobil needed assurances that the proposal had high-level Russian backing, and was not merely the creation of the working level team. If ExxonMobil received a signal however, that high-level Russian decision-makers backed the compromise, the company would "engage and go forward," with the remaining economic issues unlikely to present a serious obstacle to agreement.

16. (C) Willis assured the Ambassador that, on the issue of governance, at least, the major CPC partners were in sync. Willis explained that, of all the CPC partners, British Petroleum (BP -- with only a 2.5% share) was most ready to give in to Russia's demands, because BP was seeking to sell its share of both CPC and TengizChevroil (5%, held as a joint venture with Lukoil) and wanted a CPC deal in order to enhance the value of its holdings.

ExxonMobil Not Interested in Bosphorus Bypass  
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17. (C) Continuing the conversation about CPC expansion negotiations, Willis told the Ambassador that ExxonMobil had no interest in participating in any Bosphorus bypass project, including Burgos-Alexandropolis. "We just can't see the economics," he said, suggesting that any company which joined the project would pay an additional \$1 per barrel of oil to ship crude to the Black sea, while those which did not sign up would "just sail through the Bosphorus, waving." The Ambassador suggested that \$1 per barrel seemed like a very reasonable "insurance premium" against the possibility that an accident or terrorist act might close the Bosphorus. Willis disagreed, replying that ExxonMobil "doesn't assess

the risk as that great."

¶8. (C) Comment: We find it interesting that ExxonMobil is preparing to assert itself in KCTS negotiations -- both within the HGA process and, potentially, by leading negotiations between the Kazakhstan-based producers and the BTC Co. -- after playing only a passive role in the recently-completed BTC IGA negotiations. ExxonMobil, at least, seems to have seized on the future Eskene-Kuryk pipeline as a lower-cost way to ship second generation Tengiz production to market than the railroad-based route currently being negotiated and constructed (Ref C). Whether the HGA negotiations proceed rapidly enough to make KCTS a cost-saving alternative for Tengiz may depend on whether KMG -- as a Tengiz partner -- buys into ExxonMobil's (and, presumably, Chevron's) vision, and whether the Tengiz parties can impose their sense of urgency on other negotiating parties more habituated to the (receding) deadline of Kashagan's first production. End Comment.

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